

**STATE OF UTAH INSURANCE DEPARTMENT**  
**REPORT OF EXAMINATION**  
**OF**  
**CASUALTY UNDERWRITERS INSURANCE COMPANY**  
**OF**  
**SALT LAKE CITY, UTAH**  
  
**As Of**  
**December 31, 1999**



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October 10, 2000

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State of Utah Insurance Department  
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An examination has been conducted as of December 31, 1999, in accordance with your instructions, and in compliance with the insurance laws of the State of Utah, of the financial condition and business affairs of

**CASUALTY UNDERWRITERS INSURANCE COMPANY,  
Salt Lake City, Utah,**

a stock property and casualty insurance company, hereinafter referred to as the Company. The following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered by Examination**

The Company was last examined as of December 31, 1995, by an examiner representing the Insurance Commissioner of the State of Utah. The current examination covers the intervening four year period through December 31, 1999, and includes any material transactions and/or events occurring subsequent to December 31, 1999, which were noted during the course of the examination.

**Examination Procedures Employed**

All phases of the examination were conducted to determine compliance with generally accepted regulatory accounting and valuation standards and procedures promulgated by the National Association of Insurance Commissioners (NAIC), applicable laws of the State of Utah and insurance rules promulgated by the State of Utah Insurance Department. A certificate of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was obtained from management.

**Status of Adverse Findings, Material Changes in the Financial Statement and Other Significant Regulatory Information Disclosed in the Previous Examination**

Items of concern noted in the examination report as of December 31, 1995, were properly addressed by the Company, during the period covered by the current examination, or received further comment in this report.

**HISTORY**

**General**

The Company was organized on May 28, 1986, under the name of Commercial Underwriters Insurance Company. It was issued a certificate of authority to transact property and general casualty, without workmen's compensation insurance business, in the State of Utah on May 30, 1986. The Company's articles of incorporation were amended on October 31, 1986, to change the corporate name from Commercial Underwriters Insurance Company to Casualty Underwriters Insurance Company.

Article IV of the articles of incorporation was amended on September 15, 1989, to change the par value of the Company's common stock from \$1.00 per share to \$1.60 per share. This article was amended again on August 13, 1993, to increase the number of authorized shares from 562,500 shares to 1,000,000 shares.

Company operations were maintained in Salt Lake City, Utah, and Goddard, Kansas, until April of 1988. Subsequently, operations were consolidated with other affiliates in Kansas.

**Capital Stock**

The total number of outstanding shares of the Company's common stock was 625,000 with a par value of \$1.60 per share. The Company was a wholly owned subsidiary of American Underwriters Life Insurance Company, an Arizona insurance company.

**Dividends to Stockholders**

No cash or stock dividends were declared or paid during the period of examination.

**Management**

Article VI of the Company's articles of incorporation stated "The number of Directors shall be at least five, with the maximum number as set by the Board of Directors from time to time." Directors serving as of December 31, 1999, were as follows:

**Name and Residence**

R. Kell Hawkins  
Las Vegas, Nevada

Norma Hawkins  
Las Vegas, Nevada

**Principle Business Affiliations**

President – Inter-Americas Insurance Corporation  
President – American Underwriters Life Insurance Company  
President – First Financial Insurance Company  
Chairman of the Board – Casualty Underwriters Insurance Company  
Secretary/Treasurer - Inter-Americas Insurance Corporation  
Secretary/Treasurer - American Underwriters Life Insurance Company  
Secretary/Treasurer - First Financial Insurance Company

<u>Name and Residence</u>	<u>Principle Business Affiliations</u>
Ronald Kellie Hawkins Wichita, Kansas	Executive Vice President - Inter-Americas Insurance Corporation President - Casualty Underwriters Insurance Company
Arthur Oleen Dummer Sandy, Utah	President - Donner Company
Leslea Nan Dummer Sandy, Utah	Consultant - Donner Company

The Company's bylaws provided that the officers of the Company shall be a chief executive officer, president, secretary and treasurer. These officers were to be elected annually by a majority of the board of directors. The officers serving as of December 31, 1999, were as follows:

<u>Name</u>	<u>Position</u>
R. Kell Hawkins	Chairman of the Board and Chief Executive Officer
Ronald Kellie Hawkins	President
Marcus William Dummer	Secretary/Treasurer
Bruce Floyd Weiner	Senior Vice President

The board of directors designated directors and officers to the Investment Committee during their December 27, 1997, board of directors meeting. No formal meetings of this committee, or any other committees of the board, were held during the examination period. The Company was exempt from the requirement of an audit committee pursuant to Utah Code Annotated (UCA) 31A-4-412(2) in that all outstanding shares of common stock entitled to vote were owned by a single person pursuant to UCA 31A-5-407(4).

#### **Conflict of Interest Procedures**

The Company required officers and directors to complete conflict of interest certificates on an annual basis. A review of these certificates for the years 1996, 1997, 1998 and 1999 revealed no exceptions.

#### **Corporate Records**

The board of directors met at least once a year over the examination period. Minutes of the board of directors were reviewed and adequate review and approval of Company transactions was given. The board did review the prior financial examination report.

#### **Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales Through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the examination period.

### Surplus Debentures

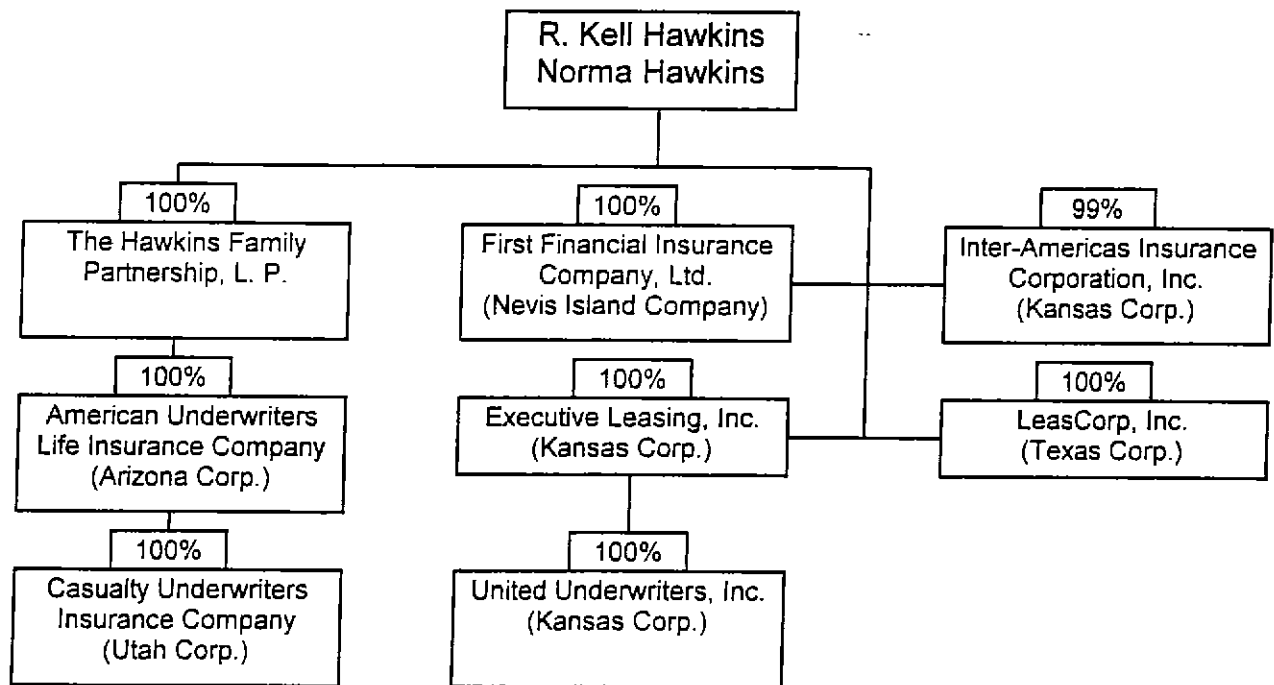
There were no surplus debentures outstanding during the examination period.

## **AFFILIATED COMPANIES**

### Holding Company System

The Company became a member of an insurance holding company system on the date of its incorporation, May 30, 1986. It was 100% owned by American Underwriters Life Insurance Company (AUL), an Arizona insurance company, as of December 31, 1999.

An organizational chart presenting the identifications of and interrelationships between the parent, affiliated insurers and other affiliates on December 31, 1999, is shown below.



The Company's 1997, 1998 and 1999 Summary of Registration Statements (Form C) did not properly disclose changes to the pertinent Insurance Holding Company System Annual Registration Statements (Form B) pursuant to UCA Subsection 31A-16-105. The Company did not file an amended Form B within 15 days after the end of the month the applicable transaction occurred on two occasions pursuant to UAC Rule R590-70-4.

### **Administrative Services Agreement**

This agreement was made with Inter-Americas Insurance Corporation, Inc., (IAI), an affiliate, on November 1, 1996. IAI agreed to provide certain administrative services related to the operation of the Company's business for a flat fee of \$5,000.00 per month.

### **Management Services Agreement**

This agreement was made with AUL, the Company's parent, on January 6, 1997. AUL agreed to provide certain management services related to the operation of the Company's business for a flat fee of \$4,000.00 per month.

### **Marketing Services Agreement**

This agreement was made with IAI on June 1, 1997. IAI agreed to provide certain marketing services related to the operation of the Company's business for a fee that was defined to be a percentage of the premiums produced by IAI agents. The percentage was defined in a document entitled "New Business Reports" for each account.

### **Reinsurance Agreements**

The Company had three quota share agreements in effect as of year end 1999 ceding various classes of insurance to its affiliate, First Financial Insurance Company, LTD, (First Financial), an unauthorized off shore reinsurer of the island of Nevis (Leeward Islands), as follows:

- 33 1/3% of its non-standard auto insurance,
- 50% of its binder insurance (short term collateral protection insurance),
- 100% of its credit fire insurance.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company carried fidelity bond coverage of \$100,000 as of December 31, 1999, which was in excess of the minimum amount required using guidelines provided in the NAIC's Examiners Handbook. The Company was named as an insured on policies providing for commercial umbrella liability and commercial automobile coverage.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company did not have any employees. All managerial, administrative and marketing services were provided under agreements with affiliates.

## **STATUTORY DEPOSITS**

As of December 31, 1999, the Company was required, pursuant to UCA Section 31A-4-105, to maintain a deposit in the amount of its minimum capital requirements. The Company's minimum capital requirement was \$1,000,000. The statement value of deposits maintained by the Company through the Utah Insurance Department was \$1,750,793. The market value of the deposits was \$1,769,300.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Policy Forms and Underwriting**

As of December 31, 1999, the Company marketed group collateral protection policies during the period of examination through lending entities, mainly for automobile physical damage, group credit fire and group involuntary unemployment risks. These products were designed to pay off or reduce a debtor's loan balance with the lender. The Company retained 100% of all collateral protection and involuntary unemployment business, and none of the credit fire business, ceding it all to an affiliate. Policy limits were related to the value of the collateral insured. The limits for the business retained were \$50,000 for collateral protection and \$1,000 for unemployment business.

Individual private passenger physical damage and liability policies were also developed and initially marketed in 1998, within the period of examination. The Company retained 66.7% of this business which had a policy limit of \$300,000. Written premiums on liability lines increased from \$0, as of year end 1997, to \$760,603, as of year end 1999, which represented over 50% of total written premiums as of December 31, 1999, due to the introduction of this new business.

Comparisons were made of stock forms with approved forms filed with the Utah Insurance Department with no exceptions noted.

### **Territory and Plan of Operation**

The Company was authorized to transact insurance in the States of Idaho, North Dakota, South Dakota, Utah and West Virginia as of December 31, 1999. The Certificates of Authority authorized the transaction of property, surety, liability, marine and transport, workers compensation and vehicle liability classes of business in Utah, and various similar lines of property and casualty business in the States of Idaho, North Dakota, South Dakota and West Virginia. All direct business was marketed through IAI as a general agent under a Marketing Services Agreement discussed under the section of this report entitled "AFFILIATED COMPANIES" as of December 31, 1999.

### **Advertising and Sales Material**

Sales materials, which consisted of one pamphlet, were compared with related policies with no exceptions noted.

### **Treatment of Policyholders**

A review of Utah Insurance Department Complaints Database report dated February 8, 2000, revealed no open complaints as of December 31, 1999, or any justified complaints filed within the period of examination. The Company maintained a complaint log which compared to the Utah Insurance Department Complaint Database report without significant exception.



## REINSURANCE

### Assumed

The Company entered into a quota share reinsurance agreement with Old United Casualty Company (Old United) on July 1, 1995. It assumed 100% of Old United business produced by IAI, pursuant to a Manager General Agents Contract, effective July 1, 1995, between Old United and IAI. The classes or products reinsured were collateral protection, vendors single interest, binder (short term collateral protection insurance), mobile home and credit fire.

### Ceded

The Company entered into a quota share reinsurance agreement with First Financial on January 1, 1998, in which it ceded a third (33 1/3%) of its non-standard auto insurance. Ceding commissions were 30% on business written through Sun Coast General Insurance Agency (Sun Coast) or 32% on business written directly by the Company. The Company subsequently terminated its relationship with Sun Coast prior to year end 1999. The agreement was replaced by a similar agreement entered into with First Financial on January 1, 2000. The new agreement reinsured only business directly written by the Company with ceding commissions of 27%.

The Company entered into a quota share reinsurance agreement with First Financial on January 1, 1992 in which it ceded 50% of its binder insurance. The agreement provided for ceding commissions of 60% to be paid the Company.

The Company entered into an automatic quota share reinsurance agreement with First Financial on January 1, 1991, in which it ceded 100% of its credit fire insurance. The agreement provided for ceding commissions of 5% to be paid the Company plus actual commissions paid by the Company.

The Company entered an updated trust agreement with First Financial effective January 1, 1998, which satisfied an exception in the prior report of examination disallowing unearned premium reinsurance credit.

## ACCOUNTS AND RECORDS

The Company's accounting systems consisted of a general ledger, journal registers and other computerized information created from source documents. The Company utilized various commercial software packages and had custom written programs created to maintain policy information. These applications were maintained on personal computer networks using both Novell and Window NT operating systems in conjunction with an IBM AS/400 mid-frame computer. These services were provided to the Company under administrative and management services agreements referred to under the section of this report entitled "AFFILIATED COMPANIES."

A general ledger trial balance was constructed as of December 31, 1999, and was reconciled to the Company's 1999 annual statement. Changes in ledger assets and surplus during 1999, as reported in the annual statement, were also confirmed. General ledger accounts for other years covered in the examination period were reconciled to the related annual statement accounts as deemed necessary.

The Company retained the services of a public accounting firm to perform annual statutory audits throughout the period of examination.

## **FINANCIAL STATEMENTS**

The statements listed below are presented immediately following in this report.

Balance Sheet as of December 31, 1999

Statement of Income for the Year Ending December 31, 1999

Capital and Surplus Account, January 1, 1996, through December 31, 1999

**The notes to the financial statements are an integral  
part of the financial statements.**

**Casualty Underwriters Insurance Company**  
**Balance Sheet as of December 31, 1999**

**Assets**

	<b><u>Per Exam</u></b>	<b><u>Note*</u></b>
Bonds	\$ 3,065,857	(1)
Mortgage loans on real estate	144,280	
Cash and short term investments	218,925	
Other invested assets	0	(2)
Agent's balances or uncollected premiums	140,374	
Interest, dividends and real estate income due and accrued	<u>63,525</u>	
Total assets	<u>\$ 3,632,961</u>	

**Liabilities, Surplus and Other Funds**

Losses	\$ 538,110	
Loss adjustment expenses	14,393	
Contingent commissions and other similar charge	0	(3)
Other expenses	8,564	
Taxes, licenses and fees	23,994	
Unearned premiums	257,990	(4)
Payable for securities	65,908	
Aggregate write-ins for liabilities	<u>2,459</u>	
Total liabilities	<u>911,418</u>	
Common capital stock	1,000,000	
Gross paid in and contributed surplus	200,000	
Unassigned funds (surplus)	<u>1,521,543</u>	(5)
Surplus as regards policyholders	<u>2,721,543</u>	(5)
Total liabilities, surplus and other funds	<u>\$ 3,632,961</u>	

\* Refer to NOTES TO FINANCIAL STATEMENTS

**Casualty Underwriters Insurance Company**  
**Statement of Income for the Year Ending December 31, 1999**

	<u>Per Exam</u>
<b>UNDERWRITING INCOME</b>	
Premiums earned	\$1,624,982
<b>DEDUCTIONS</b>	
Losses incurred	891,322
Loss expenses incurred	101,010
Other underwriting expenses incurred	<u>865,215</u>
Total underwriting deductions	<u>1,857,547</u>
Net underwriting gain or ( -Loss )	-232,565
<b>INVESTMENT INCOME</b>	
Net investment income earned	193,760
Net realized capital gains or ( -Losses )	<u>643</u>
Net investment gain or (-Losses )	194,403
<b>OTHER INCOME</b>	
Aggregate write-ins for miscellaneous income	<u>8,370</u>
Net income (-Loss) before dividends to policyholders and before federal and foreign income taxes	-29,792
Dividends to policyholders	<u>0</u>
Net income ( -Loss ), after dividends to policyholders but before federal and foreign income taxes	-29,792
Federal and foreign income taxes incurred	<u>-944</u>
Net Income ( -Loss )	<u><u>\$ -28,848</u></u>

**Casualty Underwriters Insurance Company**  
**Capital and Surplus Account**  
**January 1, 1996, through December 31, 1999**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Surplus as regards policyholders, December 31, prior year	\$2,260,531	\$2,642,994	\$2,809,966	\$2,810,516
Net income	279,795	164,724	114,959	-28,848
Net unrealized capital gains or ( -losses )	59,614	2,248	-79,106	-7,720
Change in not-admitted assets	<u>43,054</u>	<u>0</u>	<u>-35,303</u>	<u>-52,405</u>
Change in surplus as regards policyholders for the year	<u>382,463</u>	<u>166,972</u>	<u>550</u>	<u>-88,973</u>
Surplus as regards policyholders, December 31 current year	<u>\$2,642,994</u>	<u>\$2,809,966</u>	<u>\$2,810,516</u>	<u>\$2,721,543</u>

## NOTES TO FINANCIAL STATEMENTS

### (1) Bonds

**\$3,065,857**

The Company's custodial securities agreements were not in compliance with Utah Administrative Code (UAC) Rule R590-178 as of December 31, 1999. Appropriate agreements, which did comply with the rule, were executed during the course of the examination. Required approval by the board of directors was also obtained. These assets were therefore allowed. The prior examination cited the Company for maintaining securities under a custodial agreement that did not comply with provisions contained in UAC Rule R590-104-4, the predecessor to Rule R590-178.

### (2) Other Invested Assets

**\$0**

This asset was reduced by an aggregate of \$76,704. None were qualified assets as defined by UCA Section 31A-17-201. Two were limited partnerships and one was a collateral loan. The collateral loan was not admitted in the prior examination report for the same reason. The prior examination also did not admit a limited partnership, however, it was not among the current limited partnerships.

### (3) Contingent Commissions and Other Similar Charges

**\$0**

The liability in the annual statement reflected amounts due under a retrospective rate agreement on what had been a major collateral protection policy with a financial institute. The policy terminated and the liability had been stagnate with no activity in the 1<sup>st</sup> quarter of the year 2000. The negative liability amount of \$8,641 was reallocated to the asset item accrued retrospective premiums as a not admitted asset for the purposes of this report.

### (4) Unearned Premiums

**\$257,990**

This liability was increased by \$18,007 due to the use of inappropriate premiums in the calculation of the unearned premiums. The Company used the monthly premium instead of actual paid premiums on which the term of coverage was determined.

### (5) Surplus as Regards Policyholders

**\$2,721,543**

Based on the foregoing financial statements and related comments, the Company had paid up capital of \$1,000,000, paid in and contributed surplus of \$200,000 and unassigned funds of \$1,521,543 for a surplus as regards policyholders of \$2,721,543.

The unassigned funds for the examination was \$103,352 less than reported by the Company. The detail for the change is as follows:

<u>Account</u>	<u>Company</u>	<u>Examination</u>	<u>Change in Surplus</u>	<u>Note*</u>
Other Invested Assets	\$ 76,704	\$ 0	\$ -76,704	(2)
Contingent Commissions and Other Similar Charges	-8,641	0	-8,641	(3)
Unearned Premiums	239,983	257,990	<u>-18,007</u>	(4)
Total change			-103,352	
Unassigned funds reported			<u>1,624,895</u>	
Unassigned funds per examination			<u><u>\$1,521,543</u></u>	

The Company's minimum capital requirement was \$1,000,000 pursuant to U.C.A. Section 31A-5-211. Its total adjusted capital was \$2,721,543 and authorized control level risk based capital was \$253,255 pursuant to U.C.A. Part 31A-17-IV.

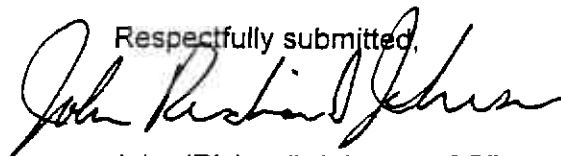
### SUMMARY

1. The Company was part of a holding company system. All outstanding shares of the Company were owned by American Underwriters Life Insurance Company.  
(AFFILIATED COMPANIES, Holding Company System)
2. The Company's 1997, 1998 and 1999 Summary of Registration Statements (Form C) did not properly disclose changes to the pertinent Insurance Holding Company System Annual Registration Statements (Form B) pursuant to UCA Subsection 31A-16-105. The Company did not file an amended Form B within 15 days after the end of the month on two occasions pursuant to UAC Rule R590-70-4. (AFFILIATED COMPANIES, Holding Company System)
3. Other invested assets was reduced by \$76,704 due to not admitting assets which were not qualified pursuant to UCA Section 31A-17-201. (NOTES TO FINANCIAL STATEMENTS, (2) Other Invested Assets)
4. The Company's custodial securities agreements were not in compliance with UAC Rule R590-178. (NOTES TO FINANCIAL STATEMENTS, (1) Bonds)
5. The Company's surplus as regards policyholders, as determined by the examination, was \$2,721,543 as of December 31, 1999. Its minimum capital requirement was \$1,000,000 pursuant to UCA Section 31A-5-211(2)(a). Its total adjusted capital was \$2,721,543, and authorized control level risk based capital was \$253,255 pursuant to UCA Part 31A-17-VI. (NOTES TO FINANCIAL STATEMENTS, (5) Surplus as Regards Policyholders)

### CONCLUSION

The assistance, cooperation and hospitality extended during the course of the examination by officers, employees and representatives of the Company was appreciated.

Respectfully submitted,



John (Richard) Johnson, CFE, CISA  
Contract Insurance Examiner  
Representing the Utah Insurance Department